

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

JULY 2002

HIGHLIGHTS

Maryland Ranks High in New Economy Index

Maryland ranked 5th overall in the Progressive Policy Institute's *New Economy Index*, up from 11th in 1999. Maryland received top honors in workforce education (see *Focus* article).

Economic Weakness Lingers

After a quick turnaround, the pace of the recovery seems to have halted, with job growth rates in the negative territory. In May, the nation's job growth rate was -1.1 percent; Maryland was at -0.7 percent.

Fundamentals Remain Strong; Job Growth Ranking Falls

Maryland and its neighboring states saw their job growth rates fall. However, the fundamentals of the Maryland economy remain strong.

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Governor

Kathleen Kennedy Townsend
Lt. Governor

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Secretary

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Deputy Secretary

Snapshot Maryland

Two things are clear: the fundamentals of Maryland's economy remain strong and the state has been unable to shake-off the lingering effects of the national recession. Latest data show that Maryland's income level is high and growth remains strong. The state has the nation's highest median household income and one of the lowest poverty rates. The housing and transportation sectors remain strong, while tourism activity has returned to its level of a year ago. Maryland is among the top five states in the Progressive Policy Institute's *New Economy Index* and it is poised for long-term growth. It also ranks 1st in workforce education.

Job data also show significant weaknesses in the near-term. The job numbers have actually worsened since the beginning of the year, after showing

growth during the closing months of 2001. Consequently, the state's job growth ranking has fallen. Maryland is not alone in this downturn, however. Most of our neighboring states — and the nation, as well — have seen their job growth rates falter and job growth rankings fall in recent months. It is likely that weaknesses in the job market will continue until the end of the year, with improvements appearing in early 2003.

Maryland's and the nation's manufacturing sectors have shown signs of improvement. In Maryland, average weekly hours in manufacturing establishments rose to 41.1 in May from 40.8 in April and 40.3 a year ago. National data showed smaller gains. Orders for durables goods are rising, while inventory levels have remained low. The U.S. Department of Commerce reported that factory orders climbed 0.7 percent in May to \$321 billion

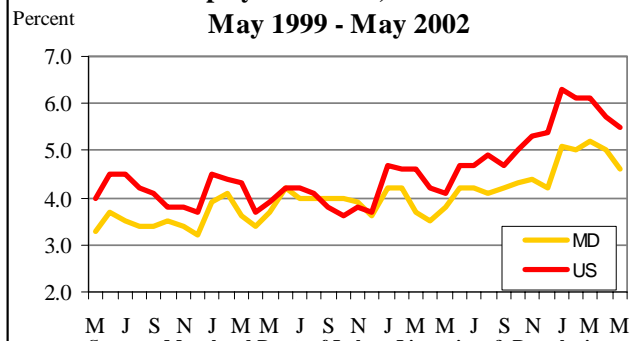
— stronger than expected. The data indicate that increases in production are taking place, but are being implemented with the existing workforce and longer hours. Manufacturers are reluctant to make long term hiring commitments until the recovery takes hold.

The Institute for Supply Management (ISM) said its monthly non-manufacturing business ac-

Labor Market Trends, May 2002 (Percent Change, May 2001 - May 2002)

	MD	U.S.
Growth of Civilian Labor Force	3.0	0.9
Employment by Place of Residence	2.2	-0.6
Job Growth (by place of work)	-0.7	-1.1
Temporary Cash Assistance – Caseload	-0.9	–
Change in Initial UI Claims	8.6	3.4
Help-wanted Counts	-13.3	–
Unemployment Rate (current month, %)	4.6	5.5

Unemployment Rate, MD vs. U.S.
May 1999 - May 2002



Jobs and Sectors

Maryland's job growth rate fell to -0.7 percent, earning the state a ranking of 30th in the nation in job growth in May. Most of its neighboring states also saw their job growth rates and ranking falter. The May rankings were: Delaware 33rd, New Jersey 28th, Pennsylvania 40th, Virginia 38th and West

Percent Change in Jobs May 2001 - May 2002

	MD	U.S.
Construction	-5.7	-2.6
Manufacturing	-2.9	-6.0
FIRE	-0.4	0.3
TCU	-2.7	-4.7
Trade	-0.7	-1.1
Services	-0.2	0.3
Business	-8.2	-3.2
Health	2.6	2.9
Government	1.5	1.8
Total	-0.7	-1.1

Virginia 31st. Among neighboring states, only the District of Columbia showed positive growth and ranked 10th in the nation. For the first five months of 2002, Maryland's job growth rate was -0.3 percent, resulting in a ranking of 23rd in the nation.

In May, positive job growth was limited to only 13 states and the District of

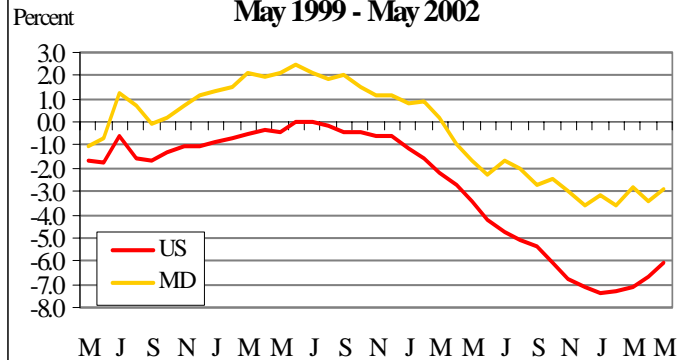
columbia — most of them small population states, led by Wyoming, Nevada, Alaska and Rhode Island. The larger states, including California, Florida, Illinois, Georgia, Massachusetts, New York and Texas, registered negative job growth rates in May. Missouri, Georgia and Washington had job growth rates of -2.0 percent or lower. When compared with its neighboring and competing states, Maryland's performance is not out of line.

Over the past 12 months, Maryland experienced a net job loss of 17,000 — or a loss of 0.7 percent. The U.S. job loss

rate was much higher at 1.1 percent. In Maryland, health services and the government sector gained jobs in May, adding 5,200 and 6,800 jobs, respectively, during the past year. The big story is the continued weakness of the business services sector, which lost 17,000 jobs during the past year and was singly responsible for the dismal performance in May. Job losses were also significant in construction (-9,300), manufacturing (-5,200), TCU (-3,200) and trade (-3,900).

In the durable goods manufacturing sector, electronic equipment manufacturing lost 2,700 jobs and industrial machinery lost 1,100 jobs. Transportation equipment showed a modest gain of 300 jobs, while fabricated metal products held steady. Among the nondurable goods industries, printing and publishing lost 1,000 jobs between May 2001 and May 2002. Average weekly hours rose from 40.3 a year ago

Manufacturing Job Growth, MD vs. U.S. May 1999 - May 2002



Source: U.S. Bureau of Labor Statistics

to 41.1 in May 2002, and earnings posted an 8.8 percent gain.

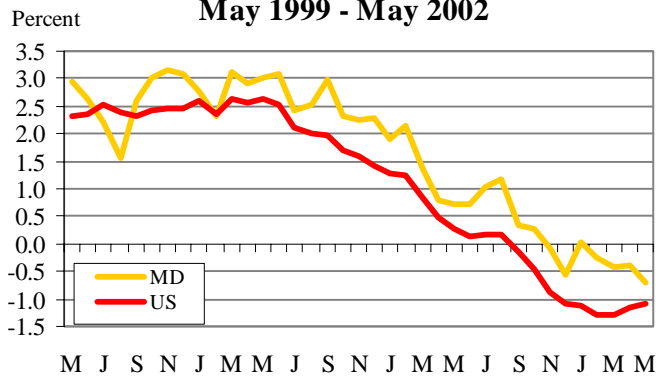
Although retail trade lost 2,700 jobs overall, several industries performed well. Eating and drinking establishments and food stores each added 1,800 jobs during the past year, while building materials and garden supply stores added 700 net new jobs.

Health and education services showed job gains during the past year, while business services had significant job losses. The government sector added 6,800 net new jobs, due largely to the addition of 2,400 federal jobs and 3,400 local government jobs.

Maryland's housing sector remains strong overall, with both the number of sales and average home prices rising. Existing home sales, however, fell 3.9 percent in May compared with the level of a year ago. In addition, permits for new

(continued on page 5)

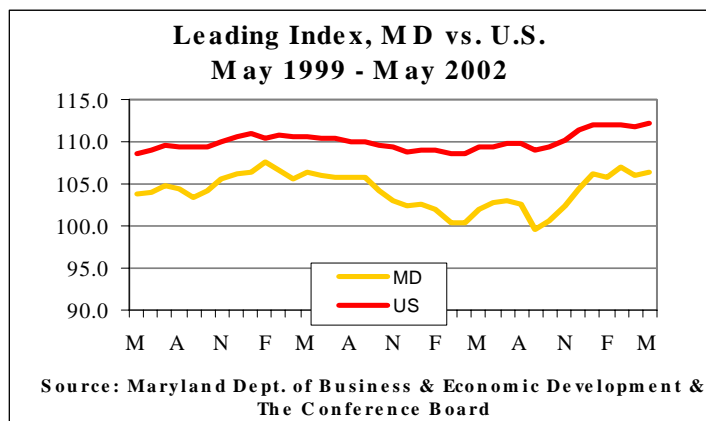
Job Growth, MD vs. U.S. May 1999 - May 2002



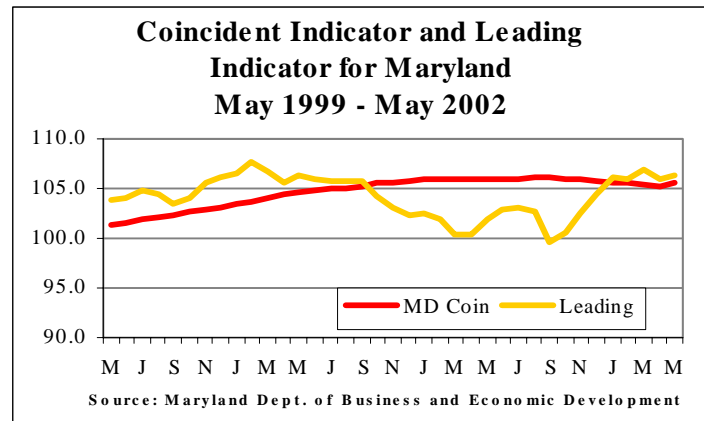
Source: U.S. Bureau of Labor Statistics

Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* improved in May, up to 106.3 from 105.9 in the previous month. The leading index was also up by 4.3 percent from a year ago. Only three out of the seven Maryland components — including average weekly hours in manufacturing, BWI passengers and initial claims for unemployment insurance — provided a positive effect in May. Two out of the three national components also generated a positive impact in May. The indicator has been volatile in the past few months, making it difficult to extract a clear signal about the direction of the economy. The national leading index was up in May by 0.4 percent and was also up 2.7 percent from a year ago. While the U.S. economy has shown signs of improvement, the weakness in financial markets will contribute to the uncertainty about the strength of the recovery.



The revised *coincident index* stood at 105.5 in May, up 0.3 percent from the previous month. The indicator was down by 0.4 percent from a year ago. The economy has slowed significantly over the past year and is yet to signal an upward trend. On a month-to-month basis, the index has been declining slightly since October 2001 and the recent reading is the first upturn since then. In May, the U.S. coincident index was up by 0.1 percent from the previous month, but was down 0.3 percent from the same period a year ago. On a month-to-month basis, the U.S. indicator has declined fairly steadily since April of last year and resumed an upward trend in December 2001. Thus, the data appear to indicate that the Maryland economy may be lagging slightly behind the national economy.



Snapshot Maryland (continued from page 1)

tivity index, which measures the services sector of the economy, fell to 57.2 in June from 60.1 in May, below analysts' forecasts for a dip to 58.8. A number above 50 indicates growth; anything below 50 denotes contraction. The ISM new orders index edged up to 56.9 in June from 56.8 in May, suggesting strong demand for future services activity that could keep the index firm next month. But the employment index slipped sharply to 44.3 in June from 49.5 in May, the 16th straight month of job loss.

The pace of layoffs is slowing, however. As of the end of June, initial claims for unemployment insurance (UI) had fallen to their lowest level in 15 months. In Maryland, UI claims fell from April to May, but were slightly higher than a year ago.

Maryland's labor force grew 3.0 percent in May and employment by place of residence increased by 2.2 percent — both

outpacing the U.S. average. Maryland's unemployment rate (not seasonally adjusted) fell from 5.0 percent in April to 4.6 percent in May, but remains above the 3.8 percent rate for May 2001. The U.S. unemployment rate also rose to 5.5 percent from 4.1 percent a year ago. Nationally, the labor force grew a modest 0.9 percent, while the number of employed persons fell by 0.6 percent.

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
May 2002	4.6	5.5	4.7	5.8
Apr 2002	5.0	5.7	5.4	6.0
May 2001	3.8	4.1	4.0	4.4

Source: U.S. Bureau of Labor Statistics

FOCUS: The New Economy Index

How does Maryland rank in growth potential? How is Maryland prepared to meet the economic challenges of the new, knowledge-based, high-tech economy? Very well, according to the Progressive Policy Institute, a non-profit think tank. The Institute recently released its 2002 State's New Economy Index of the 50 states judging them on 21 indicators including information technology jobs, online population, tech-savvy governments and the number of jobs in so-called "gazelle" companies.

According to the 2002 report, Maryland's rankings have greatly improved since 1999, and the state now ranks #5 overall in the nation and #1 in workforce education — a weighted measure of the educational attainment, advanced degrees, bachelor's degrees, associates degrees and college course work achieved by its workforce. In 1999, Maryland ranked #11 overall and #7 in workforce education.

The top 10 states in the 2002 report were Massachusetts,

Washington, California, Colorado, **Maryland**, New Jersey, Connecticut, Virginia, Delaware and New York. The bottom five states in the 2002 survey were Wyoming, Alabama, Arkansas, Mississippi and West Virginia.

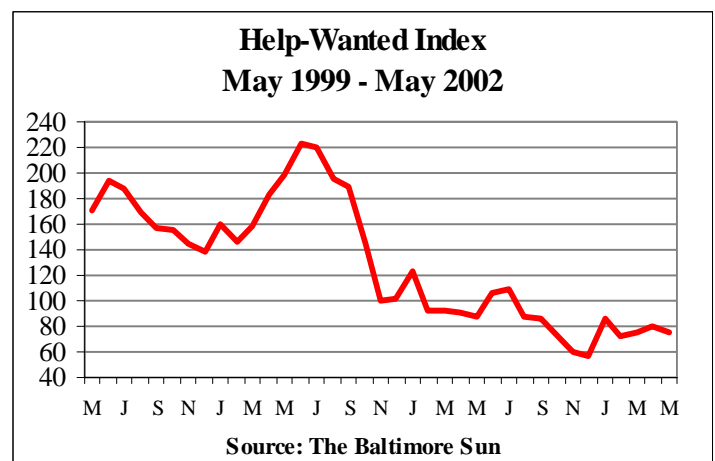
Since 1999, Maryland has moved from #43 in the country to #14 in the number of jobs in "gazelle" companies. These are companies with annual sales revenue growth of 20 percent or more for four straight years.

Venture capital invested as a percentage of gross state product also increased significantly in Maryland. Nineteenth in the nation in 1999, Maryland is now #6 in attracting venture capital. The number of patents issued to Maryland companies or individuals per 1,000 workers also increased significantly — moving Maryland from #23 to #10. Similarly, the value of the initial public stock offerings of companies as a share of gross state product also increased, with Maryland moving from #17 to #7.

Other Economic Indicators

- Maryland's unemployment rate edged lower in May and remains below the national average. Labor force and employment (by place of residence) growth rates remain exceptionally strong in comparison to the U.S. average.
- Maryland registered a -0.7 percent job growth rate during the May 2001 to May 2002 period. By comparison, the U.S. showed a job loss of 1.1 percent. Neighboring states, including Delaware, Pennsylvania and Virginia, had significantly higher job losses.
- Maryland had a job growth ranking of 23rd during the first five months of the year — not very strong, but much better than its neighbors and one of the strongest on the Eastern seaboard.
- Weekly manufacturing hours rose to 41.1 in May 2002 from 40.3 a year ago. Earnings also rose during the past year, both in Maryland and in the U.S. The sharp growth in earnings is mostly a reflection of increased work hours and overtime work.
- UI claims seem to be stabilizing. Initial UI claims in Maryland rose a modest 8.6 percent from May 2001 to May 2002. Nationally, UI claims rose 3.4 percent over the year.
- Existing home sales fell 3.9 percent in Maryland during the past year, after rising strongly during the first four months. New residential building permits fell 0.4 percent.

- Automobile sales fell a modest 0.4 percent over the year, but remain strong overall. Most automobile manufacturers and dealers have continued their rebate programs and other incentives.
- The Maryland stock index remained steady in May 2002 compared to a year ago.
- The *Baltimore Sun's* help-wanted counts were 13.3 percent below the level of a year ago.
- In the tourism sector, welcome center visitors and hotel/motel occupancy rates and amusement tax revenues all rose. Hotel/motel sales tax revenues fell slightly over the year.



FOCUS: Unemployment Rates in Maryland

Maryland's economy is still holding up well in comparison to the U.S. Maryland's unemployment rate for May (not seasonally adjusted) rose to 4.6 percent from 3.8 percent a year ago. By comparison, the U.S. unemployment rate stood at 5.5 percent, up from 4.1 percent the same period last year. Unemployment rates vary among Maryland jurisdictions due to differences in resources, the ability of markets to allocate workers and other factors that push economic activity to, or pull activity away from, a region.

Most jurisdictions in the Baltimore area registered unemployment rates that were below the statewide average. The most significant exception was Baltimore City, with an unemployment rate that was almost double the state average. In general, this region should continue to perform relatively well, benefiting from the increase in federal spending — defense and homeland security-related expenditures, in particular — and a rebound in tourism activity.

Counties in the Washington, D.C. area and Southern Maryland also have unemployment rates below the statewide average and also stand to benefit from increased federal spending. In particular, health research spending tends to favor the Washington region. In addition, Maryland residents in the D.C. suburbs are also in close proximity to the job market in Northern Virginia. St. Mary's County continues to perform well. It has one of the lowest unemployment rates and a strong job base due to defense-related direct and indirect jobs.

In contrast, counties in Western Maryland and the Eastern shore tended to be above the statewide unemployment rate. Many of these counties have a relatively high exposure to manufacturing in comparison to the statewide average, a sector that has been shedding a significant number of jobs. In addition, these jurisdictions have fewer ties to federal government spending.

Unemployment Rates by Region

	May-02	Apr-02	May-01
Maryland	4.6	5.0	3.8
Baltimore Area			
Anne Arundel	3.8	4.2	2.7
Baltimore City	8.7	9.0	7.4
Baltimore County	5.0	5.3	4.7
Carroll	2.9	3.2	2.3
Harford	4.3	4.7	3.6
Howard	3.2	3.4	2.3
D.C. Area			
Frederick	3.0	3.3	2.4
Montgomery	2.9	3.3	2.2
Prince George's	4.9	5.6	3.7
Southern Maryland			
Calvert	2.9	3.1	2.3
Charles	2.9	3.1	2.3
St. Mary's	3.1	3.2	2.5
Western Maryland			
Allegany	6.3	7.7	6.7
Garrett	6.3	7.4	6.1
Washington	4.4	5.1	3.7
Eastern Shore			
Caroline	4.9	5.0	5.2
Cecil	5.2	7.3	4.3
Dorchester	9.5	10.6	10.4
Kent	3.8	4.3	3.3
Queen Anne's	3.3	3.6	3.1
Somerset	6.9	8.2	7.5
Talbot	2.9	3.2	2.4
Wicomico	5.4	6.0	5.5
Worcester	6.5	10.2	7.5

Source: U.S. Bureau of Labor Statistics and
Maryland Department of Labor, Licensing and Regulation
(Data are not seasonally adjusted)

Jobs and Sectors (continued from page 2)

residential units fell 0.4 percent over the year. New auto registrations fell marginally, but remain at near-record levels. The Baltimore-Washington International Airport (BWI) had a slight drop in passenger volume; cargo volume, however, jumped 40 percent over the year. BWI is now the number one airport in the region in passenger volume.

The tourism sector is returning to normal growth rates. Hotel/motel occupancy rates rose to 72 percent in May, up from the previous month and from a year ago. State welcome center visitor volume was up 3.8 percent over the year. Amusement and admissions tax revenues rose by 25 percent from May 2001 to May 2002.

Selected Monthly Economic Indicators

Selected Indicators	Maryland					U.S.				
	May 2002	Apr 2002	Percent Change From Last Month	May 2001	Percent Change From Last Year	May 2002	Apr 2002	Percent Change From Last Month	May 2001	Percent Change From Last Year
Labor Market										
Labor Force (U.S. in Thousands)	2,898,512	2,896,013	0.1	2,814,690	3.0	142,253	141,886	0.3	141,048	0.9
Employment (U.S. in Thousands)	2,766,122	2,750,263	0.6	2,707,514	2.2	134,365	133,740	0.5	135,202	-0.6
Unemployment Rate	4.6	5.0	-8.0	3.8	21.1	5.5	5.7	-3.5	4.1	34.1
Sun Help-Wanted Counts, Baltimore MSA	16,924	17,930	-5.6	19,517	-13.3					
Initial Claims for Unemployment Insurance	20,525	22,491	-8.7	18,896	8.6	1,557,020	1,772,914	-12.2	1,505,852	3.4
TCA Caseload	29,163	29,250	-0.3	29,442	-0.9					
TCA Cases Closed	2,992	2,931	2.1	2,734	9.4					
Jobs and Sectors										
Total Non-Agricultural Employment (Thousands)	2,465.1	2,451.7	0.5	2,482.1	-0.7	131,434	130,608	0.6	132,851	-1.1
Construction (Thousands)	154.7	153.5	0.8	164.0	-5.7	6,594	6,400	3.0	6,768	-2.6
Manufacturing (Thousands)	172.8	172.7	0.1	178.0	-2.9	16,760	16,744	0.1	17,838	-6.0
FIRE (Thousands)	141.8	141.4	0.3	142.3	-0.4	7,744	7,714	0.4	7,719	0.3
TCU (Thousands)	114.8	113.9	0.8	118.0	-2.7	6,804	6,765	0.6	7,137	-4.7
Trade (Thousands)	548.7	543.6	0.9	552.6	-0.7	30,041	29,772	0.9	30,377	-1.1
Services (Thousands)	860.0	854.4	0.7	861.7	-0.2	41,291	41,061	0.6	41,187	0.3
Business (Thousands)	189.7	189.2	0.3	206.7	-8.2	9,308	9,202	1.2	9,620	-3.2
Health (Thousands)	206.3	206.2	0.0	201.1	2.6	10,621	10,592	0.3	10,318	2.9
Government (Thousands)	470.7	470.6	0.0	463.9	1.5	21,641	21,595	0.2	21,259	1.8
Average Weekly Earnings (\$)	663.77	658.10	0.9	610.14	8.8	622.50	620.16	0.4	600.33	3.7
Average Weekly Hours	41.1	40.8	0.7	40.3	2.0	40.9	40.8	0.2	40.7	0.5
Business and Consumer Markets										
BWI Cargo (Metric Tons)	21,856	21,008	4.0	15,600	40.1					
BWI Passengers (Millions)	1.75	1.61	9.2	1.90	-7.7					
Electric Meters Installed, Commercial ¹	133	144	-7.6	203	-34.5					
Electric Meters Installed, Residential ¹	955	942	1.4	1,169	-18.3					
Electricity Sales, Commercial (Millions of kWh) ¹	1.72	1.33	29.5	1.58	8.7					
Electricity Sales, Residential (Millions of kWh) ¹	0.97	1.08	-9.9	1.04	-6.7					
Existing Home Sales (U.S. in Thousands)	7,545	7,098	6.3	7,853	-3.9	537	491	9.4	504	6.5
New Auto Registration	37,359	36,452	2.5	37,494	-0.4	1,394,675	1,408,507	-1.0	1,453,563	-4.1
New Residential Permits Authorized	2,424	2,533	-4.3	2,434	-0.4	161,048	154,493	4.2	155,786	3.4
Indexes										
Leading Index	106.3	105.9	0.4	101.9	4.3	112.2	111.8	0.4	109.3	2.7
Help-Wanted Index	75.5	80.0	-5.6	87.1	-13.3	45	47	-4.3	60	-25.0
CPI	112.8	N/A	N/A	110.1	2.5	179.8	179.8	0.0	177.7	1.2
Stock Index	220.1	220.9	-0.4	219.9	0.1	1,067.1	1,076.9	-0.9	1,255.8	-15.0
Tourism										
Hotel/ Motel Occupancy Rate (%)	72.0	70.1	2.7	71.6	0.6					
State Welcome Center Visitors	242,202	202,828	19.4	233,257	3.8					
Amusement & Admission Tax (Millions of Dollars)	3.66	7.65	-52.1	2.93	24.9					
Hotel /Motel Sales Tax (Millions of Dollars)	3.80	3.34	13.6	4.03	-5.8					

Notes:

¹ BGE data are for March 2002.



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